



INDEPENDENT AUDITORS' REPORT

To the Board of Governors of the
Federal Reserve System

We have audited the accompanying balance sheets of the Board of Governors of the Federal Reserve System (the Board) as of December 31, 2000 and 1999, and the related statements of revenues and expenses and fund balance, and of cash flows for the years then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Board as of December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 5 to the financial statements, in 1999 the Board changed its method of accounting for the costs of software obtained for internal use.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2001, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

February 21, 2001

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

BALANCE SHEETS

<u>ASSETS</u>	As of December 31,	
	<u>2000</u>	<u>1999</u>
CURRENT ASSETS		
Cash	\$ 22,842,252	\$ 31,072,908
Accounts receivable	1,057,901	873,148
Prepaid expenses and other assets	1,108,766	794,000
Total current assets	25,008,919	32,740,056
PROPERTY, BUILDINGS, AND EQUIPMENT, NET (Note 5)	68,521,774	63,928,406
Total assets	<u>\$ 93,530,693</u>	<u>\$ 96,668,462</u>
 <u>LIABILITIES AND FUND BALANCE</u>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 10,702,740	\$ 12,360,089
Accrued payroll and related taxes	6,040,961	7,090,754
Accrued annual leave	8,492,728	8,063,655
Capital lease payable (current portion)	180,340	172,058
Unearned revenues and other liabilities	2,044,160	2,347,303
Total current liabilities	27,460,929	30,033,859
CAPITAL LEASE PAYABLE (non-current portion)	280,683	366,464
ACCUMULATED RETIREMENT BENEFIT OBLIGATION (Note 2)	694,782	747,717
ACCUMULATED POSTRETIREMENT BENEFIT OBLIGATION (Note 3)	4,065,704	3,614,828
ACCUMULATED POSTEMPLOYMENT BENEFIT OBLIGATION (Note 4)	3,109,456	2,581,079
Total liabilities	<u>35,611,554</u>	<u>37,343,947</u>
FUND BALANCE	<u>57,919,139</u>	<u>59,324,515</u>
Total liabilities and fund balance	<u>\$ 93,530,693</u>	<u>\$ 96,668,462</u>

See notes to financial statements

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

**STATEMENTS OF REVENUES AND EXPENSES
AND FUND BALANCE**

	For the years ended December 31,	
	2000	1999
BOARD OPERATING REVENUES		
Assessments levied on Federal Reserve Banks for Board operating expenses and capital expenditures	\$ 188,067,200	\$ 213,789,510
Other revenues (Note 6)	9,645,279	8,661,435
Total operating revenues	<u>197,712,479</u>	<u>222,450,945</u>
BOARD OPERATING EXPENSES		
Salaries	118,376,878	115,618,738
Retirement and insurance contributions	19,889,451	16,012,513
Contractual services and professional fees	13,860,641	15,642,464
Depreciation and net losses on disposals	8,855,763	8,124,505
Utilities	6,249,503	6,109,935
Travel	5,769,788	5,970,437
Postage and supplies	5,536,156	6,879,584
Equipment and facilities rental	5,075,502	4,761,618
Software	4,192,658	4,189,644
Repairs and maintenance	3,373,654	3,662,547
Printing and binding	2,047,590	2,387,568
Other expenses (Note 6)	<u>5,890,271</u>	<u>4,717,322</u>
Total operating expenses	<u>199,117,855</u>	<u>194,076,875</u>
BOARD OPERATING REVENUES OVER (UNDER) EXPENSES	<u>(1,405,376)</u>	<u>28,374,070</u>
ISSUANCE AND REDEMPTION OF FEDERAL RESERVE NOTES		
Assessments levied on Federal Reserve Banks for currency costs	435,837,762	484,959,221
Expenses for currency printing, issuance, retirement and shipping	<u>435,837,762</u>	<u>484,959,221</u>
CURRENCY ASSESSMENTS OVER (UNDER) EXPENSES	<u>0</u>	<u>0</u>
TOTAL REVENUE OVER (UNDER) EXPENSES	<u>(1,405,376)</u>	<u>28,374,070</u>
FUND BALANCE, Beginning of year	59,324,515	30,950,445
TRANSFERS TO THE U.S. TREASURY		
Transfers and accrued transfers from surplus Federal Reserve Bank earnings (Note 1)	3,752,000,000	0
Transfers and accrued transfers to the U.S. Treasury (Note 1)	<u>(3,752,000,000)</u>	<u>0</u>
FUND BALANCE, End of year	<u>\$ 57,919,139</u>	<u>\$ 59,324,515</u>

See notes to financial statements

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENTS OF CASH FLOWS

	For the years ended December 31,	
	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES		
Board operating revenues over (under) expenses	\$ (1,405,376)	\$ 28,374,070
Adjustments to reconcile operating revenue over (under) expenses to net cash provided by operating activities:		
Depreciation and net losses on disposals	8,855,763	8,124,505
(Increase) decrease in accounts receivable, prepaid expenses and other assets	(499,519)	458,411
Increase (decrease) in accounts payable and accrued liabilities	(1,657,349)	4,128,902
Increase (decrease) in accrued payroll and related taxes	(1,049,793)	(654,870)
Increase (decrease) in accrued annual leave	429,073	570,122
Increase (decrease) in capital lease payable	(77,499)	(3,456)
Increase (decrease) in unearned revenues and other liabilities	(303,143)	313,174
Increase (decrease) in accumulated retirement benefit obligation	(52,935)	(25,460)
Increase (decrease) in accumulated postretirement benefit obligation	450,876	(17,107,041)
Increase (decrease) in accumulated postemployment benefit obligation	528,377	397,477
Net cash provided by operating activities	5,218,475	24,575,834
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposals	44,400	88,292
Capital expenditures	(13,493,531)	(13,702,648)
Net cash used in investing activities	(13,449,131)	(13,614,356)
NET INCREASE (DECREASE) IN CASH	(8,230,656)	10,961,478
CASH BALANCE, Beginning of year	31,072,908	20,111,430
CASH BALANCE, End of year	\$ 22,842,252	\$ 31,072,908
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Capital lease obligations incurred	\$ 116,340	\$ 123,020

See notes to financial statements

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

(1) SIGNIFICANT ACCOUNTING POLICIES

Organization--The Federal Reserve System was founded by Congress in 1913 and consists of the Board of Governors (Board) and twelve regional Reserve Banks. The Board was established as a federal government agency and is supported by Washington staff numbering about 1,700, as it carries out its responsibilities in conjunction with other components of the Federal Reserve System. The accompanying financial statements include only the operations and activities for the Board and are prepared in accordance with accounting principles generally accepted in the United States of America.

Board Operating Revenues and Expenses--Assessments made on the Federal Reserve Banks for Board operating expenses and capital expenditures are calculated based on expected cash needs. These assessments, other operating revenues, and operating expenses are recorded on the accrual basis of accounting.

Issuance and Redemption of Federal Reserve Notes--The Board incurs expenses and assesses the Federal Reserve Banks for the costs of printing, issuing, shipping, and retiring Federal Reserve Notes. These assessments and expenses are separately reported in the statements of revenues and expenses because they are not Board operating transactions.

Property, Buildings and Equipment--The Board's property, buildings and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, which range from 4 to 10 years for furniture and equipment and from 10 to 50 years for building equipment and structures. Upon the sale or other disposition of a depreciable asset, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is recognized.

Federal Reserve Bank Surplus Earnings--The Federal Reserve Act, as amended, required that \$3,752,000,000 of surplus Federal Reserve Bank earnings be transferred from the Banks to the Board and then to the U. S. Treasury in 2000.

Estimates--The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) RETIREMENT BENEFITS

Substantially all of the Board's employees participate in the Retirement Plan for Employees of the Federal Reserve System (System Plan). The System Plan is a multiemployer plan which covers employees of the Federal Reserve Banks, the Board, and the Plan Administrative Office. Employees of the Board who entered on duty prior to 1984 are covered by a contributory defined benefits program under the System Plan. Employees of the Board who entered on duty after 1983 are covered by a non-contributory defined benefits program under the System Plan. Contributions to the System Plan are actuarially determined and funded by participating employers at amounts prescribed by the System Plan's administrator. Based on actuarial calculations, it was determined that employer funding contributions were not required for the years 2000 and 1999, and the Board was not assessed a contribution for these years. Excess Plan assets will continue to fund future years' contributions. The Board is not accountable for the assets of this plan.

A relatively small number of Board employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). The Board matches employee contributions to these plans. These defined benefit plans are administered by the Office of Personnel Management. The Board's contributions to these plans totaled \$266,000 and \$244,000 in 2000 and 1999, respectively. The Board has no liability for future payments to retirees under these programs, and it is not accountable for the assets of the plans.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

Employees of the Board may also participate in the Federal Reserve System's Thrift Plan. Under the Thrift Plan, members may contribute up to a fixed percentage of their salary. Board contributions are based upon a fixed percentage of each member's basic contribution and were \$5,133,000 and \$4,966,000 in 2000 and 1999, respectively.

Effective January 1, 1996, Board employees covered under the System Plan are also covered under a Benefits Equalization Plan (BEP). Benefits paid under the BEP are limited to those benefits that cannot be paid from the System Plan due to limitations imposed by Sections 401(a)(17), 415(b) and 415(e) of the Internal Revenue Code of 1986. Section 401(a) of the Code was amended to increase the contribution limitation for highly paid employees to \$170,000 from \$160,000 effective in 2000. This increase resulted in a reduction in the benefit obligation of the BEP for 2000. Pension costs attributed to the BEP reduce the pension costs of the System Plan. Activity for 2000 and 1999 is summarized in the following table:

	2000	1999
<u>Change in Benefit Obligation</u>		
Benefit Obligation at Beginning of Year	\$ 631,264	\$ 897,822
Service Cost	544	12,206
Interest Cost	99	37,840
Plan Participants' Contributions	0	0
Plan Amendments	(552,770)	0
Actuarial (Gain)/Loss	(69,229)	(234,999)
Benefits Paid	(8,104)	(81,605)
Benefit Obligation at End of Year	<u>\$ 1,804</u>	<u>\$ 631,264</u>
<u>Change in Plan Assets</u>		
Fair Value of Plan Assets at Beginning of Year	\$ 0	\$ 0
Actual Return on Plan Assets	0	0
Employer Contributions	8,104	81,605
Plan Participants' Contributions	0	0
Benefits Paid	(8,104)	(81,605)
Fair Value of Plan Assets at End of Year	<u>\$ 0</u>	<u>\$ 0</u>
<u>Reconciliation of Funded Status at End of Year</u>		
Funded Status	\$ (1,804)	\$ (631,264)
Unrecognized Net Actuarial (Gain)/Loss	(358,390)	(320,381)
Unrecognized Prior Service Cost	(1,287,253)	(851,331)
Unrecognized Net Transition Obligation	952,665	1,055,259
Prepaid/(Accrued) Postretirement Benefit Cost	<u>\$ (694,782)</u>	<u>\$ (747,717)</u>
<u>Amounts Recognized in the Statement of Financial Position Consist of:</u>		
Prepaid Benefit Cost	\$ 0	\$ 0
Accrued Benefit Liability	(694,782)	(747,717)
Intangible Asset	0	0
Accumulated Other Comprehensive Income	0	0
Net Amount Recognized	<u>\$ (694,782)</u>	<u>\$ (747,717)</u>

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

	2000	1999
<u>Weighted-average assumptions as of December 31</u>		
Discount Rate	7.50%	7.50%
Expected Asset Return	N/A	N/A
Salary Scale	5.00%	5.00%
Corridor	10.00%	10.00%
<u>Components of Net Periodic Expense for Year</u>		
Service Cost	\$ 544	\$ 12,206
Interest Cost	99	37,840
Expected Return on Plan Assets	0	0
Amortization of Prior Service Cost	(116,848)	(72,520)
Recognized Net Actuarial Gain	(31,220)	(23,975)
Amortization of Net Liability	102,594	102,594
Net Periodic Benefit Expense	<u>\$ (44,831)</u>	<u>\$ 56,145</u>

(3) POSTRETIREMENT BENEFITS

The Board provides certain life insurance programs for its active employees and retirees. Activity for 2000 and 1999 is summarized in the following table:

	2000	1999
<u>Change in Benefit Obligation</u>		
Benefit Obligation at Beginning of Year	\$ 4,096,411	\$ 22,946,312
Service Cost	126,076	162,487
Interest Cost	312,298	265,565
Plan Participants' Contributions	0	0
Plan Amendments	0	(1,384,322)
Actuarial (Gain)/Loss	(278,501)	(1,703,601)
Benefits Paid	(994)	(16,190,030)
Benefit Obligation at End of Year	<u>\$ 4,255,290</u>	<u>\$ 4,096,411</u>
<u>Change in Plan Assets</u>		
Fair Value of Plan Assets at Beginning of Year	\$ 0	\$ 0
Actual Return on Plan Assets	0	0
Employer Contributions	994	16,190,030
Plan Participants' Contributions	0	0
Benefits Paid	(994)	(16,190,030)
Fair Value of Plan Assets at End of Year	<u>\$ 0</u>	<u>\$ 0</u>
<u>Reconciliation of Funded Status at End of Year</u>		
Funded Status	\$ (4,255,290)	\$ (4,096,411)
Unrecognized Net Actuarial (Gain)/Loss	189,586	481,583
Unrecognized Prior Service Cost	0	0
Unrecognized Net Transition Obligation	0	0
Prepaid/(Accrued) Postretirement Benefit Cost	<u>\$ (4,065,704)</u>	<u>\$ (3,614,828)</u>

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

Components of Net Periodic Expense for Year

Service Cost	\$ 126,076	\$ 162,487
Interest Cost	312,298	265,565
Amortization of Prior Service Cost	0	0
Amortization of (Gains)/Losses	13,497	39,259
Total Net Periodic Expense	451,871	467,311
Other Credit	0	(1,384,322)
Total Expense	\$ 451,871	\$ (917,011)

The liability and costs for the postretirement benefit plan were determined using discount rates of 7.50 percent as of December 31, 2000 and December 31, 1999. Unrecognized losses of \$189,586 and \$481,583 as of December 31, 2000 and 1999, respectively, result from changes in the discount rate used to measure the liabilities. Under Statement of Financial Accounting Standards No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, the Board may have to record some of these unrecognized losses in operations in future years. The assumed salary trend rate for measuring the increase in postretirement benefits related to life insurance was an average of 6 percent.

The above accumulated postretirement benefit obligation is related to the Board sponsored life insurance programs. The Board has no liability for future payments to employees who continue coverage under the federally sponsored programs upon retiring. Contributions for active employees participating in federally sponsored programs totaled \$4,792,000 and \$4,482,000 in 2000 and 1999, respectively.

(4) POSTEMPLOYMENT BENEFIT PLAN

The Board provides certain postemployment benefits to eligible employees after employment but before retirement. Effective January 1, 1994, the Board adopted Statement of Financial Accounting Standards No. 112, *Employers' Accounting for Postemployment Benefits*, which requires that employers providing postemployment benefits to their employees accrue the cost of such benefits. Prior to January 1994, postemployment benefit expenses were recognized on a pay-as-you-go basis. The postemployment benefit expense was \$851,000 and \$628,000 for 2000 and 1999, respectively.

(5) PROPERTY, BUILDINGS AND EQUIPMENT

The following is a summary of the components of the Board's property, buildings and equipment, at cost, net of accumulated depreciation.

	As of December 31,	
	2000	1999
Land and improvements	\$ 1,301,314	\$ 1,301,314
Buildings	44,978,514	43,661,936
Furniture and equipment	49,090,528	49,187,837
Software	7,883,210	5,047,293
Construction in Process	9,980,880	4,699,571
	113,234,446	103,897,951
Less accumulated depreciation	(44,712,672)	(39,969,545)
Property, buildings and equipment, net	\$ 68,521,774	\$ 63,928,406

Furniture and equipment and accumulated depreciation include \$864,000 and \$366,000, and \$738,000 and \$225,000 as of December 31, 2000 and 1999, respectively, for capitalized leases.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

The Board began the Eccles Building Infrastructure Enhancement Project in July 1999. This \$12.5 million project, scheduled for nineteen phases over three and a half years, includes asbestos removal, lighting and plumbing improvements, cabling and other enhancements. Multiple phases will be in process at the same time.

Effective January 1, 1999, in accordance with AICPA Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* the Board began to capitalize the costs of computer software developed or obtained for internal use. Prior to 1999, the Board capitalized purchased software only. These changes increased software assets and decreased expenses by \$1,691,000 in 1999. These changes did not affect accumulated depreciation in 1999.

(6) OTHER REVENUES AND OTHER EXPENSES

The following are summaries of the components of Other Revenues and Other Expenses.

	As of December 31,	
	2000	1999
Other Revenues		
Data processing revenue	\$ 4,817,207	\$ 4,073,910
National Information Center	2,606,998	1,937,206
Subscription revenue	1,079,822	1,240,032
Reimbursable services to other agencies	607,716	609,442
Miscellaneous	533,536	800,845
Total other revenues	<u>\$ 9,645,279</u>	<u>\$ 8,661,435</u>
Other Expenses		
Tuition, registration and membership fees	\$ 1,429,231	\$ 1,352,849
Cafeteria operations, net	821,817	857,435
Subsidies and contributions	837,071	856,893
Miscellaneous	2,802,152	1,650,145
Total other expenses	<u>\$ 5,890,271</u>	<u>\$ 4,717,322</u>

(7) COMMITMENTS

The Board has entered into several operating leases to secure office, training and warehouse space for periods ranging from one to ten years. Minimum future commitments under those leases having an initial or remaining noncancelable lease term in excess of one year at December 31, 2000, are as follows:

2001	\$ 4,926,000
2002	4,967,000
2003	4,729,000
2004	5,089,000
2005	2,833,000
after 2005	3,649,000
	<u>\$ 26,193,000</u>

Rental expenses under the operating leases were \$4,687,000 and \$4,334,000 in 2000 and 1999, respectively.

**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999**

(8) FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

The Board is one of the five member agencies of the Federal Financial Institutions Examination Council (the "Council"). During 2000 and 1999, the Board paid \$256,000 and \$327,000, respectively, in assessments for operating expenses of the Council. These amounts are included in other expenses for 2000 and 1999.



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Governors of the
Federal Reserve System

We have audited the financial statements of the Board of Governors of the Federal Reserve System (the Board) as of and for the year ended December 31, 2000, and have issued our report thereon dated February 21, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the Board in a separate letter dated February 21, 2001.

Compliance

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

To the Board of Governors of the
Federal Reserve System
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This report is intended solely for the information and use of the Members and management of the Board and the Inspector General of the Board of Governors of the Federal Reserve System, and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

February 21, 2001